1990 FARM BILL

Summary and Effect on Ohio Agriculture

by

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Summary

The primary policy goals of the 1990 Farm Bill are: (1) deficit reduction, (2) improved agricultural competitiveness, and (3) environmental enhancement. Embedded in these overriding objectives remain the well known objectives of price and income protection. Mechanisms used to accomplish these objectives include: (1) target prices, (2) loan rates, (3) deficiency payments, (4) an acreage reduction program, (5) maximum payment acreage, and (6) planting flexibility.

Target prices, a mechanism to protect farm income, are $2.75 for corn and $4.00 for wheat. Soybean producer income is protected by the difference between market price and the $5.02 marketing loan. National loan rates, price protection for corn and wheat in Ohio, change annually depending upon market prices, stocks-to-use ratios, and the discretion of the secretary. For 1991 crops, the loan rates are: $1.62 (corn) and $2.04 (wheat) per bushel. Presumably, price floors would be established for corn and wheat at or near the loan rates. There is no price floor for soybeans.

Deficiency payments, target price minus the higher of average market price or loan rate, guarantee farmers will receive at least the target prices for most of his/her corn and wheat production. Producers may receive 40 percent of expected deficiency payments as a cash advance at sign-up time.

Acreage reduction programs (ARP), a supply/price/budget control mechanism, require producers not to produce a crop on a portion of their base acreage. The ARP percentage is adjusted annually based on stocks-to-use ratios. Producers are required to set aside 7.5 percent of their corn base and 15 percent of their wheat base in 1991. Soybeans do not have an ARP provision.

Maximum payment acreage, a deficit reduction provision, specifies that deficiency payments will be paid on no more than 85 percent of base acreage minus ARP acreage. 1991 maximum payment acres for corn and wheat are 77.5 and 70 percent of base acreage, respectively.

The "flexibility" provision was designed to encourage producer response to market signals and still participate in the program. It permits production of other crops, except for fruits and vegetables, on the 15 percent of base acreage ineligible for deficiency payments under the "maximum payment acreage" provision. Producers have the option to increase their "flex" acreage to 25 percent of base acreage.

Effects

The primary effect of the Farm Bill on Ohio agriculture will be lower income for the 1991-95 period. Two provisions create the potential for declining income. First, the absence of deficiency payments on "flex" acres could reduce income by $150 million for the five-year period. Second, lower deficiency payments in 1994 and 1995, because of the longer marketing year provision, could reduce five-year income by $50 million. Together, these two provisions could lower five-year income by as much as $200 million--an average of $40 million per year, with greatest reductions in later years. On average, Ohio net income can be expected to decline 4 to 5 percent because of the 1990 Farm Bill.

Secondary effects, caused by lower income, will likely include: (1) lower debt service capacity, (2) delayed machinery purchases, and (3) lower asset values. Ohio farm debt could decline another $200 to $400 million during the next five years. The value of farm assets could decline by an equal amount. Good farmland could lose $100 per acre in value.

There will be differential impacts. The loss in income, debt service capacity, and asset value will occur, for the most part, on grain farms. Large specialized grain farms will be more affected than small and/or diversified farms because their ratio of dependence on government payments is higher. Farms not participating in the government program will be affected very little.